Exhibit E

:dge funds were run by former traders. Millennium, for example, was unded by Israel "Izzy" Englander, a former AMEX trader. What was :ange was Madoff's structure—or lack thereof. It was customary for :dge funds to charge a 2 percent fee on assets and a 20 percent fee ı profits, but Madoff only charged commissions. Just by passing up ı the 2 percent management fee, Madoff was giving up $60 million on s $15 billion in assets each year.

Consider the sheer scope of the fees Madoff was leaving on the table st from Fairfield Sentry alone. By 2000, Fairfield Sentry had $3.3 bil-ɔn in assets. In 1990, Fairfield Sentry was up 27 percent. In the ensu-g decade, it returned no less than 11 percent in any year and sometimes high as 18 percent. In 2000, Fairfield Sentry returned 11.55 percent. ssuming Fairfield charged the hedge fund industry's standard fees of percent and 20 percent between 2000 and 2008, on an average $5 llion in assets, then between 2000 and 2008 Fairfield charged vestors—and booked as income—fees of $1.2 billion. Why would a vvy investor like Madoff willingly give up that kind of money?

Something was off. "It was too good to be true," Christensen re-lled thinking. "The big money obviously had started rolling in to :adoff from those funds of hedge funds and the feeder funds. And e people running them didn't have to work for a living. They only had pay Bernie trading commissions and they got 2 percent of assets ıd 20 percent of all profits? C'mon! They had to know something asn't right."

At the same time as hedge funds were gaining in popularity, Wall reet was building up its own industry catering to them. Large broker-;e firms like Barclays, Bank of America, Bear Stearns, and Goldman .chs all offered "prime brokerage" services to hedge funds, which in-uded something called "capital introduction." Capital introduction eant they helped hedge funds raise money and get exposure at confer-ıces and even lent them money to make wagers in the stock and bond arkets. "That's how they entice you to become a client. They say, 'This what we can do for you,'" explained Tom Lauria. Having a prime 'oker gives a hedge fund "some credibility. It gives them a blue-chip ıme to show to investors as part of the infrastructure." It also gives vestors somewhere to go to check the hedge funds' holdings, he ex-ained. The prime brokerage industry is pretty up front about the fact at it charges hedge funds a fee for these services—a fee for raising

money, a fee for appearing at a conference, a fee for borrowing money, and so on.

But Madoff did not have a prime broker, which should have served as a huge red flag to those in the hedge fund industry. Neither he nor his family attended Wall Street's popular prime brokerage events—the casino nights in New York, the conferences in Florida and Los Angeles, and the hedge fund networking events in the Caribbean or Monaco. They attended and hosted plenty of other industry parties for the legitimate broker-dealer side of the business—for the Security Traders Association and other traders' groups—but not events for hedge funds.

Madoff never had a prime broker because he never had a real hedge fund.

Instead of borrowing money from banks (which would have demanded he disclose his books to their oversight), Madoff was borrowing from ordinary people—the casualties of his pyramid scheme. "Most times hedge funds borrow money from banks or their prime broker at 3 percent and then pay back that loan over time and invest it in things they think will return some larger amount, like 10 percent. Madoff wasn't even borrowing the money," Lauria added. He was just stealing it.

In 1997, Rob Picard was working for RBC, the Royal Bank of Canada. The Canadian bank was mulling over investing some money in what was considered the holy grail of hedge funds: a low volatility fund. "Low volatility" meant the returns on the fund weren't always very high but they were consistent, as smooth as the Sargasso Sea every year, predictable and calm. Picard and other executives flew to New York to meet with Madoff in his midtown offices to see whether his guaranteed investment strategy was for real.

RBC had clients who wanted to borrow money from the Canadian bank to put into a feeder fund invested with Madoff. "Investors were coming to us asking for leverage, especially investors in the Tremont Broad Market Fund and Fairfield Sentry," Picard recalled.

Tremont was a huge believer in Bernard Madoff. Bob Schulman, who oversaw Tremont's alternative investments business with colleague Sandra Manzke, "insisted that we meet with Bernie. He was one of Madoff's biggest fans," Picard said. Tremont, founded by Manzke in 1985, started selling Madoff-managed investments in 1997 under the Rye Select Broad Market name, charging 2 percent of assets. Tremont's

Rye Investment Management unit eventually had $3.1 billion, or virtually all its assets, in Madoff's fund.

Once in from the airport, Picard and his group arrived at Madoff's nineteenth-floor office and were shown into an expansive conference room. Within about fifteen minutes, Picard realized he had logged hundreds of miles and countless meetings only to have stumbled into a fraud.

"Madoff stuttered when he tried to explain his options strategy, and right away I realized he either didn't understand it or he wasn't doing what he said he was doing," Picard said. RBC bank officials knew that Madoff was always taking in new money and that he had likely grown beyond the $8 billion in assets he claimed to be running. Picard figured it was closer to $20 billion or more.

Picard also knew that the world's top-earning hedge funds—Renaissance Technologies on Long Island, Citadel in Chicago, and Farallon in San Francisco, Julian Robertson's Tiger, Leon Cooperman's Omega, Highfields in Boston, Och-Ziff in New York—were showing up as major Wall Street players in *Institutional Investor* magazine or in other hedge fund rankings. Their returns, if they disclosed them, were closely tracked by hedge fund databases, such as MARHedge or TASS. Picard wondered why Madoff was never mentioned anywhere as one of the biggest hedge funds on Wall Street.

"We suspected something wasn't right," Picard said. After the meeting, some of the RBC investors redeemed out of the Tremont feeder funds. "Until Madoff was arrested, some of our investors wouldn't believe it. They said there was no chance he could pull off something like that."

Hedge funds, Picard had concluded, weren't about technical indicators or strategies. They were about people and access to those people. "It's all about people—Bernie, the people he surrounded himself with, and his investors. Every investor had similarities. What they were looking for and expecting, in their heart of hearts, was all behavioural finance." How to explain irrational investor decisions using psychology—especially using the theories of Daniel Kahneman, a psychologist at Princeton University, and Amos Tversky of Stanford University—is the basis of behavioral finance.

Charles MacKay, in his book *Extraordinary Popular Delusions and the Madness of Crowds*, perfectly summed up the aura of greed

surrounding Madoff's hedge fund: "Money, again, has often been a cause of the delusion of multitudes. Sober nations have all at once become desperate gamblers. . . . Men, it has been well said, think in herds; they go mad in herds, while they only recover their senses slowly, and one by one."

Madoff's fraud was likely a multibillion-dollar version of the notes scam that Frank Avellino and Michael Bienes had been running with Madoff's help in the 1960s, '70s, and '80s.

The tight circle of family surrounding Madoff at his firm "acted like a wall of enablers," Picard said. "But it ran deeper than that." Once Madoff had gained the confidence of key investors like Carl Shapiro, the Swiss bankers Notz Stucki, Edgar de Picciotto's UBP, and Edmond Safra's Safra Bank, then others followed, such as Syz & Co., and other discreet Geneva private banks. "They were all deep into Madoff because Notz Stucki liked [Madoff]" as a fund manager, Picard explained.

"They looked at the returns and said to themselves, 'We have to give Madoff money.' The European investment community trusted the numbers. They took Madoff's word." Everyone seemed to be falling for Madoff's velvet rope trick. "Bernie's attitude of turning away money, of not needing the money, worked every time. There was nothing more exclusive than a velvet rope, even in a small way."

Harry Markopolos testified to Congress that by 2002, at least a dozen or more Swiss and French private banks were invested with Madoff—all thinking they had special access. None had any idea that their peers too had been sucked in as well, as they had become "mad in herds," all buying into Madoff. After Madoff's arrest in December 2008, Notz Stucki admitted that over the years it had steered over $730 million into Bernie Madoff via feeder funds set up for clients—one fund called Pendulum and another fund, Plaza. Notz Stucki denied that it had taken any juicy commissions to send money Madoff's way, and instead had taken "only a 1 percent fee, with no performance fees," citing the "low volatility" offered by the American financier. Bank executives had seen Madoff's alleged magic formula—his track record of double-digit returns every year—during sales pitches by the Fairfield Greenwich Sentry fund, which had a track record that dated back to 1990.

Besides promising returns that never failed, Madoff's best sales pitch was all word of mouth. Other funds of hedge funds also had products

with returns linked to Madoff. Arden and FRM "would show you a page, a piece of paper with such and such of their funds, and underlying it would be Bernard Madoff," Picard said. "They were all in awe, saying things like, 'This is noncorrelated to the stock market,' meaning it didn't move in tandem with the Dow or S&P 500, and so was a good way to diversify. Or they would say, 'This can't lose money.'"

Picard didn't buy it. At RBC board of directors meetings, he had seen track records like these before. He wasn't sure exactly when the Madoff fraud spun out of control, but he believes it could have been during or after the 1987 stock market crash or during a market correction in the ensuing late 1980s.

"Madoff must have lost a lot of money at some point and was too embarrassed to face his friends and family," Picard suggested, since all those people were clients. Other hedge fund managers had done the same thing, like Michael Berger in 1999 with Manhattan Investment hedge fund, Sam Israel with Bayou in 2005, Arthur Nadel in 2009. (Nadel told investors his $350 million in hedge fund assets were posting gains when in fact there was less than $125,000 in the accounts.) The first month of losses, they tell a little lie, figuring they'll make it back. The second month, they lie some more. Eventually, they figure they're guilty no matter how much money they lose, so they continue to lie more and lose big.

Strangely enough, all these red flags did not sway Tremont or Fairfield Greenwich from investing.

Sandra Manzke had introduced Madoff to the Tremont folks, and then in 2007 Bob Schulman took over Tremont's single-manager business, the feeders. Schulman became one of the biggest advocates of Madoff's strategy. He "was one of Bernie's biggest salesmen. He would tell us [when we questioned Madoff's returns], 'You guys don't know what you're talking about,'" said one AMEX executive who worked with Schulman.

Schulman had an options background and had joined Tremont in 1994. So his former colleague was stunned that Schulman was taken in by Madoff. The AMEX official explained, "For someone with an options background, I don't know how he was able to justify and explain" how Madoff was trading his strategy, an options strategy buying calls and selling put options on the S&P 100.

There were those who suspected Madoff's magic was just an

illusion. Among Wall Street options traders, the conventional wisdom was that Madoff's strategy could not be replicated by anyone in the marketplace—at least not so it generated the double-digit returns he claimed. People leave tracks in the marketplace. When stocks rise or fall, there is always someone, somewhere, who knows why. But Madoff left no footprints. His activity did not appear in the marketplace; it was as if he didn't exist. None of the big trades he supposedly executed in the now-dwindling S&P 100 index options trading pit could ever be found. Trading in the S&P 100 was dying; more investors instead were using the popular S&P 500 index or NASDAQ index options, especially during the dot.com and technology boom.

Ken Nakayama, former head of equity derivatives at Deutsche Bank, would have seen Madoff's trades—had there been any. So would have the head of equity derivatives at Salomon Smith Barney, Goldman Sachs, Merrill Lynch, and other big "wire houses" on Wall Street. None of them ever saw Madoff's trades. Alex Jacobson from the Chicago Board Options Exchange had heard that Madoff's option trading on that exchange had stopped in the early 1990s.

The red flags were there, but still plenty of people ignored them to keep their money with Madoff. Some sociologists would argue that Madoff investors ignored the old saw "trust, but verify." Others said Madoff's investors simply allowed laziness or greed to overwhelm their good judgment since they viewed Madoff as a safe, conservative investment, like a Treasury bill or a money market account. After all, who do you ask for a referral for a good doctor, a dentist, a babysitter? Friends and family. Yet the same people did more research on buying a car than they did on the man who handled their money.

Madoff was a master of gaining trust without giving up a lot of information. Social psychologist Robert Cialdini, author of the bestselling book *Influence*, has highlighted six "weapons of influence" that ordinary people use to gain trust, including returning favors, commitment and consistency, being an authority figure, and being liked. "The trouble is that all of these can be faked, which is just what Madoff did," wrote Len Fisher, author of *Rock, Paper, Scissors: Game Theory in Everyday Life*. Some of his investors suspected that Madoff was cheating, but they continued to invest because they thought they were benefiting from his cheating, Fisher added. In other words, "they took Madoff for a different sort of cheat"—a savvy Wall Street type who was using

Although William Browder, who ran a Russia-dedicated hedge fund, described her as "strange, rather eccentric," the grandmotherly Kohn wasn't just a banker but a smooth operator and a name-dropper. Kohn was always handsomely dressed, wearing a perfectly coiffed wig and large gems.

Sonja Kohn carried two business cards. One read EUROVALEUR, with an address of 767 Fifth Avenue and a 212 phone number. Her other card read MEDICI FINANCE, with the same address and telephone number. One of her businesses was a feeder fund, the other a brokerage. "Kohn was wearing two hats," said Robert Picard, a former banker with the Royal Bank of Canada.

Picard bumped into Kohn in 1997 just as she was leaving Madoff's offices in midtown Manhattan. Kohn couldn't help herself. She introduced Picard to a man named Charles Fix and gushed, "We were together with Bernie!" Picard recalled. "She was pretending to be Bernie's closest confidante, and what she was doing was positioning herself" as an access point to Madoff, he said. Madoff was notorious for turning people away, and Fix, who was an asset manager with an inherited fortune, "was using her to get access to Bernie. She was meeting us as well and looking to see if we could set up an account with Bernie. She'd get a commission on that. Our position was, 'Screw you, we can get to Bernie anytime.' I had no intention of investing in Madoff through her fund" at Bank Medici, Picard added. "But I suspect she was getting doubly paid, by both acting as a feeder fund to Madoff and as a broker to Madoff."

"She acted as if she were absolutely in love with Madoff. The way she talked about him, I thought she was his mistress," said Picard.

As it turned out, Picard was right about Madoff paying Kohn. After Madoff's arrest, regulators in Massachusetts found records showing that Kohn had received $526,000 each quarter over a period of years from Cohmad for bringing in new money to Madoff. Other estimates are that she received $800,000 or more quarterly from Madoff.

Kohn larded the Bank Medici board with Austrian politicians. She even called herself an official adviser to the minister of economic affairs of Austria from 1996 to 2000 and claimed also to have advised the Austrian minister of foreign affairs and the Vienna Stock Exchange, according to Medici's Web site.

Her presentations carried a crestlike seal of twin lions, implying an

affiliation with royalty. She even allied the bank's private foundation with the Vienna University of Economics and Business and the University of Pennsylvania's Wharton Global Family Alliance, "a private forum whose mission is to enhance the marketplace advantage and social wealth creation contributions of global families," according to Kohn's marketing materials for Bank Medici. "Together, the Foundation and these prestigious institutions are applying breakthrough academic research and Bank Medici's decades of real-world experience to identify the key financial and personal needs of family business dynasties."

Kohn's relationship with Bank Austria Creditanstalt gave her an imprimatur of legitimacy. For Bank Austria Creditanstalt was more than just a bank: it represented the combination of political parties—the socialists and conservatives—in Austria. On her board at Bank Medici were highly placed politicians such as Johann Farnleitner. A conservative, he had overseen the merger and privatization of Bank Austria and Creditanstalt.

Sonja Kohn also capitalized on the fact that Austria was fast becoming a close cousin to Switzerland in terms of banking secrecy and a country for the rich to hide ill-gotten gains or shelter assets from taxes. Bank Medici was tailor-made to service such clients.

Kohn even pointed out that Austrian national law requires banks to apply strict banking secrecy. The country is also unique in permitting banks to keep accounts that do not carry the depositor's name, the so-called postbook account, she told *Director* magazine in late 2008. She believed that Austria's tax and inheritance laws gave her firm a competitive advantage over its competitors in Switzerland and Liechtenstein by allowing it to attract wealth investors from the Middle East, China, and Russia.

Starting in the mid-1990s and continuing through 2008, Sonja Kohn marketed a number of funds that handed money over to Madoff to manage (although that was rarely if ever disclosed). For the banks offering Sonja Kohn's hedge funds, the funds were an easy sale—especially to the little people, the retail investors and others who wanted to put their small savings into something that, on paper anyway, rang up returns like a bond. Kohn's offerings promised 10 percent a year in returns and were among those whose innocent-sounding funds were listed by banks all over Europe and the United Kingdom. They were picked out of obscurity by individuals who simply saw the straight, 45-degree line

we have to understand a very complex relationship between both parties, including the terms of financing, how they collateralize, and how can they pull financing."

Busson, nonetheless, placed $230 million of his wealthy clients' money with Bernard Madoff, even though Madoff did not even have a prime broker. The week after Madoff's arrest, the *New York Post* cornered Busson to ask about the Madoff scandal and his choice to invest in the fraud. "For the amount of money and number of accounts, it's practically impossible that he was doing this alone," said Busson. "What's mind-boggling is the amount of assets and the amount of time he was doing it." EIM's exposure was through three outside hedge funds that EIM invests in and that had accounts with Madoff, Busson told *Bloomberg Markets* magazine. Not one of EIM's accounts had more than 5 percent of its assets with Madoff.

"The truth was, Arkie didn't do the due diligence on Madoff," said a rival of Busson in an interview, after Madoff was arrested. This competitor had heard about Madoff as far back as the early 1990s, when he worked for GAM, a hedge fund of funds unit of Julius Baer, with total assets under management of $66.8 billion. "My boss told me never, ever put money with Madoff. That he was a crook. From then on, I never did." At a succession of jobs in the hedge fund industry, this fund of funds investor had opportunities to invest with Madoff and stayed away. In 2008, he had risen to the head of all alternative investments at one of America's largest banks, and still he kept clients from investing with Madoff. "Either Arkie had no process or he ignored the process."

Busson contended that when someone wants to steal your money, there is no protection against willful fraud. "Catching a fraud is practically impossible," Busson told *Bloomberg Markets* magazine. "There's only so much due diligence you can do." Madoff, he added, "was not an obscure little manager in the boondocks. He seemed like a very experienced, knowledgeable, trustworthy man—like the best con artists always are."

In a sense, Arkie Busson was the type of hedge fund customer who bridged generations. He represented the new generation of young investors in hedge funds who might be expected to be more computer savvy. But they were often investing their parents' or inherited old money that

represented a world that still relied on old-style social networking over new-style computerized investigation. Madoff played on the generational split, appealing to older people in European and American banking circles who took a person's word as his bond. They didn't ask questions. They didn't want or feel they needed to verify a money manager using newly available technology that made it easy to see whether the fund manager was actually doing what he or she claimed.

"They took Madoff's word. These strategies were sophisticated enough that the older generation didn't understand them, these trading strategies—they just assumed the manager knew what he was talking about," said Robert Picard, previously of Royal Bank of Canada and now a senior adviser with the restructuring team at Navigant Capital Advisors. "A lot of it had to do with age. But also it had to do with Bernie's attitude of not needing the money. That worked every time. There's nothing that sounds more exclusive than saying you don't need someone's money. That was his shtick. He would rope them in, taking a small amount of money at first, and then hundreds of millions."

Other European investors caught up in the Madoff scam included Britain's Merseyside and Hampshire pension funds; Italy's UniCredit and Deutsche Bank Italia pension funds; Danish and Dutch retirement giants PFA Pension and the Shell pension funds; and Switzerland's St. Galler Kantonalbank.

Britain's Merseyside and Hampshire pension funds shared the same intermediary, Bramdean Asset Management. Bramdean, run by one of London's best-known portfolio managers in high finance, Nicola Horlick, said after Madoff's arrest that it was "deeply shocked" that Madoff was a fraud. In late December 2008, Horlick said that her fund, known as Bramdean Alternatives, would lose only 4 percent of its assets if Madoff collapsed completely—which it did. The fund, which was very high profile and was quoted on the London Stock Exchange, had about 9 percent of its money invested with Madoff. It was managed by Horlick and RMF, part of Man Group, one of the largest advisers to and investors in hedge funds in the world.

But the relationship was convenient for both parties. Nicola Horlick and her company Bramdean used Madoff just as he used them: her fund